



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

**DEPARTMENT OF
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August 26, 2002

John L. Conroy
Verizon Massachusetts
185 Franklin Street
Boston, MA 02110

RE: Performance Assurance Plan Audit - D.T.E. 99-271
Department Selection of Auditor

Dear Mr. Conroy:

In our Order Adopting Performance Assurance Plan, D.T.E. 99-271, at 32-33 (September 5, 2000), the Department of Telecommunications and Energy ("Department") established a requirement that Verizon New England Inc. d/b/a Verizon Massachusetts' ("Verizon") data generation and performance reporting under the Performance Assurance Plan ("PAP") be audited on an annual basis. The Department required that the audits be performed by an independent auditor, selected by the Department through a competitive bidding process, and paid for by Verizon. The Department further required that Verizon consult with Department staff about the parameters of the bidding and selection process.

On October 24, 2001, Verizon filed with the Department a draft Request for Proposals ("RFP") to audit the PAP. The Department determined that additional language was needed to assure a thorough scope for the PAP's initial audit, and issued a letter on January 17, 2002 instructing Verizon to make several changes to its draft RFP. The Department approved Verizon's RFP on February 8, 2002, and the RFP was issued February 14, 2002. Verizon received two bids in response to its RFP, from PricewaterhouseCoopers ("PwC") and Deloitte & Touche ("D&T").

Verizon was dissatisfied with the responses to the initial RFP, and notified the Department that it intended to issue a revised RFP (“RRP”). Included in the RRP were six “scope of work” questions for clarification of proposed scope of work, including a question asking suppliers how they would meet a Verizon-defined “target price” range. The Department approved the RRP on May 1, 2002, and the RRP was issued a day later. Three suppliers responded to the RRP: PwC, D&T, and Quantitative Analysis Inc.

On June 20, 2002, Verizon made a recommendation of auditor to the Department. Verizon recommended that the Department choose D&T as auditor. The criteria that Verizon identified that differentiate D&T from PwC are: price (PwC was above target range); diversity; and synergies/other (PwC resources may be spread too thin; PwC missed some due dates on another audit; PwC not responsive to requests for clarification). Verizon's overall rating for Quantitative Analysis was low. The Department sought clarification from Verizon whether the proposals comply with the RFP and Department directives. In response, Verizon stated that the D&T bid did comply with the RFP; however, Verizon stated that the PwC bid failed to comply with Verizon's target price, and failed to identify the amount of money PwC spends with minority business.¹ Verizon also stated that it does not read the RFP or RRP as requiring bidders to identify the metrics to be audited.

Consistent with the PAP Order, the Department has sole authority for the selection of the auditor and may place whatever weight it determines on a recommendation from Verizon. After carefully reviewing the bids and Verizon's responses to the Department's questions, and taking into account Verizon's recommendation, the Department selects PwC as auditor for the initial PAP audit, for the reasons set forth below.

The PwC and D&T bids are comparable. Both bidders are reputable firms, and their bids propose a similar method for implementing the audit (i.e., selecting metrics by judgmental sample, replicating results using data from the pull point, review of Verizon business rules). However, the PwC bid was more consistent with Department requirements. PwC explains in detail what work is to be performed, identifying the metrics that it will audit, and explains the reasons behind its choices. The RFP, as approved by the Department, explicitly requires that bidders “[e]xplain the reason(s) for choosing the sample methodology, the number of metrics and the identities of the metrics for the audit.” RFP § 2.3(a). The PwC bid indicates that PwC proposes to conduct a more comprehensive audit than D&T, which would give the Department a more complete picture of Verizon's PAP compliance.

¹ The target price added by Verizon to the RRP was not a provision required by the Department.

Please provide the Department with a copy of Verizon's executed contract with PricewaterhouseCoopers within three weeks from the date of this letter.

Sincerely,

_____/s/_____
Paul B. Vasington, Chairman

_____/s/_____
James Connelly, Commissioner

_____/s/_____
W. Robert Keating, Commissioner

_____/s/_____
Eugene J. Sullivan, Jr., Commissioner

_____/s/_____
Deirdre K. Manning, Commissioner

cc. Mary Cottrell, Secretary
Paul G. Afonso, General Counsel
Michael Isenberg, Director, Telecommunications Division
Staff as Assigned